

2001

North Dakota Office of State Tax Commissioner

Income tax update

News and developments for tax practitioners
Year-end edition

October 2001

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of the
Income and Oil
Taxes Division*

*Rick Clayburgh
Tax Commissioner*

Not one...but three withholding options to be offered employers in 2002

The North Dakota income tax withholding calculation method has been changed for the upcoming 2002 calendar year. The old method, which has been in place since 1981, will be replaced with three new calculation methods. Employers may choose which of the three new methods they want to use to calculate North Dakota income tax withholding on wages paid on or after January 1, 2002.

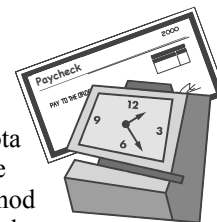
The old method, which was easy to remember and use, required an employer to multiply the amount of federal income tax withholding by a flat rate of 14 percent. Due to federal and state legislative changes in 2001, however, the old method will no

longer generate the proper amount of withholding.

Reason for changes

The changes made to how the state withholding is calculated are the direct result of the 2001 North Dakota Legislature's overhaul of the income tax law covering the short form method of filing for individuals. The overhaul was determined necessary to preempt the effects of federal tax rate cuts for 2001 that were anticipated during the 2001 legislative session. The overhaul repealed the short form method and replaced it with a new

(See [Withholding changes](#) on page 3)



New individual income tax forms line-up and look are coming for 2001

Form 37-S (Short Form) and Form 37 (Long Form) are no more. Form 37-S has been replaced by Form ND-1 as a result of the 2001 North Dakota Legislature's enactment of House Bill 1399, the *Income Tax Revision Act of 2001*. Form 37, which has not changed significantly in its content or look, has been renamed Form ND-2 as part of a comprehensive revision of all of the individual income tax forms.

Also contributing to the revisions on both forms are a number of substantive changes affecting the filing and tax calculation procedures for full-year nonresidents and part-year residents. But the change that will grab immediate attention will be the new

look of Form ND-1 which allows it to be electronically scanned and processed. This article introduces you to the new forms line-up for 2001 and highlights the major changes.



Two systems—two booklets

It is important to note from the start that North Dakota is still unique in having two separate individual income tax systems. The new Form ND-1 represents the main system for individuals, and the renamed Form ND-2 represents what will now be the optional method for individuals. To help distinguish between the two systems, the

(See [Forms line-up](#) on page 4)

In this issue...

- | | |
|---|--------------------------------------------------------------------|
| 1 | Withholding changes
New individual forms
Ordering 2001 forms |
| 2 | E-filing procedure changes |
| 5 | Form ND-1:
A look at the new form |
| 7 | Schematic of new forms line-up for 2001 |
| 8 | Miscellaneous tips for practitioners |

Order your 2001 tax forms

Enclosed with this newsletter is the order form for the 2001 income tax forms. You may also download forms from our Web site—see our Web address at the right.

Please order only what you will need, and take note of the limits on certain forms. Your help in this regard helps us keep our printing costs to a minimum.

Orders will be filled starting December 6, 2001. Please allow a reasonable amount of time to fill your order. To check on your order, call 701-328-3017. In North Dakota, call 1-800-638-2901 (*wait for the receptionist and ask for extension 8-3017*).



Download forms from our Web site at
www.ndtaxdepartment.com

E-filing procedure changes for the 2001 tax year



Our Web site address:
www.ndtaxdepartment.com

There are number of changes in the e-filing procedures for the 2001 tax year that should be noted by practitioners participating in the Federal/State Electronic Filing Program. Most of the changes are attributable to the new individual income tax system created by the 2001 North Dakota Legislature.

New tax system

Starting with the 2001 tax year, Form 37-S (Short Form) has been replaced by Form ND-1 as part of an overhaul of the short form law. This new form has the following new supplemental schedules:

- Schedule ND-1NR
(replaces Schedule NR)
- Schedule ND-1CR
(replaces Schedule 4)
- Schedule ND-1FA
(new for 2001)

Form ND-1 and the supplemental schedules identified above may be filed electronically. Also, in keeping with the new naming convention, Form 37-SEF (signature document) has been renamed Form ND-1EF, and Form 37-SV (payment voucher) has been renamed Form ND-1V.

Revision to paper document procedures

Last year, Schedule 4 (credit for income tax paid to another state) was accepted electronically, and the electronic return originator (ERO) was instructed to keep the paper copy of the other state's income tax return in the ERO's on-site files. Due to a statutory compliance issue, this procedure has been changed for the 2001 tax year. If Schedule ND-1CR (formerly Schedule 4) is used, the ERO must mail the following paper documents to the Office of State Tax Commissioner:

- Copy of signed original Form ND-1EF.
- State copies of W-2, W-2G, and 1099R.
- Copy of the other state's income tax return.

If Schedule ND-1CR is *not* used, the ERO does not have to mail in the Form ND-1EF or state copies of W-2, W-2G, and 1099R.

E-filer count up for 2000

Tax year 2000 saw yet another year of significant growth in the number of e-filers. Over 50,680 individual returns were electronically filed for the 2000 tax year. (This compares to 28,500 for the 1999 tax year.)

Software developers

The following software developers will support North Dakota for the 2001 tax year:

- **CCH Prosystems**
555 N Woodlawn, Bldg 4
Wichita, KS 67208-3646
1-800-739-9998
- **Creative Solutions**
7233 Newman Blvd
Dexter, MI 48130
1-800-968-8900
- **Drake Enterprises, Inc.**
235 E Palmer St
Franklin, NC 28734
1-800-890-9500
- **Intuit, Inc.**
110 Juliad Court
Fredericksburg, VA 22406
1-800-934-1040
- **Jackson Hewitt, Inc.**
300 Centre Pointe Dr
Virginia Beach, VA 23462
1-800-475-2904
- **Lacerte Software Corp.**
3 Galleria Tower, Ste 2200
13155 Noel Rd
Dallas, TX 75240-5088
1-800-964-6436

- **Orrtax Software, Inc.**
13208 NE 20th St
Bellevue, WA 98005
1-800-377-3337
- **Petz Enterprises, Inc.**
7575 W Linne Rd
PO Box 611
Tracy, CA 95378-0611
1-800-345-4337
- **RIA**
2395 Midway Rd
Carrollton, TX 75006
1-800-865-5257
- **TaxSlayer**
610 Ronald Reagan Drive
Evans, GA 30809-9973
1-888-420-1040
- **TaxWorks by Laser Systems**
350 N 400 West
Kaysville, UT 84037
1-800-230-2322
- **Universal Tax Systems**
6 Mathis Dr NW
Rome, GA 30165
1-800-755-9473
- **Xpress Software**
203 Bradley Dr
West Columbia, SC 29170
1-800-285-1065

If you are not already a participant in the Federal/State Electronic Tax Filing Program, you can become one if you are an Authorized IRS *e-file* Provider. You must submit an application, Form ND-8633, to the Electronic Filing Coordinator, North Dakota Office of State Tax Commissioner.

For more information, go to our Web site and click on **Electronic Filing > Individual Income Tax**. Our Web site address is www.ndtaxdepartment.com. Or contact one of our e-file coordinators—see sidebar.

North Dakota's e-file coordinators

Chuck Picard
(701) 328-3129
cpicard@state.nd.us

Donna Kohler
(701) 328-3102
dkohler@state.nd.us

method that uses federal taxable income as the starting point in calculating a North Dakota taxable income. The tax on North Dakota taxable income is then calculated by applying a new five-rate tax bracket system, with tax rates ranging from 2.1% to 5.54%.

Had the state legislature not made any change to the short form method of calculating an individual income tax, the federal tax rate cuts would have caused a significant state revenue shortfall. This is attributable to the short form method's use of the federal income tax (before credits) as a starting point in calculating the North Dakota income tax. Since 1981, the state income tax withholding formula has been based on the short form method because most individuals—over 95 percent—use the short form method to calculate their state income tax.

New calculation methods for 2002

Three new calculation methods were developed to provide employers with a choice that is convenient for their particular needs. Employers are not limited to one choice for all employees, but may choose among the three methods for any particular employee. The three methods consist of a primary (or main) method, an alternative to the primary method, and a third method that is essentially an extension of the primary method. Each of these methods is explained below.

Method 1: Percentage of Wages (Primary Method)

This method, which is similar to the IRS's Percentage Method in Publication 15 (Circular E), will be the primary method of calculating North Dakota income tax withholding. It is the method recommended for use in all cases by the Office of State Tax Commissioner. This method is

adaptable to computerized payroll applications. To use this method, an employer needs the following information:

- Number of withholding allowances claimed on the employee's Form W-4.
- Payroll period.
- Wages paid for the period.
- Marital status of employee.

Using this information, an employer calculates the amount of withholding on the wages using one of a series of prescribed tables containing the new set of five tax rates and their respective tax brackets. The appropriate table to use depends on the payroll period and marital status of the employee. All of the tables are contained in a new withholding procedures booklet—see sidebar.

Method 2: Percent of Federal Withholding (Alternative Method)

This method is an alternative to Method 1, the primary method. It looks and feels just like the old method of multiplying the amount of federal income tax withholding by a flat percentage, except that the percentage has been changed to 21%.

While this alternative method offers the same ease and convenience of the old method, the application of a single rate for withholding purposes cannot produce the right amount of withholding for every individual under a multiple rate state income tax system. However, this alternative method using a 21% rate will work for single employees with wages under \$18,000, and married employees with wages under \$30,000.

If an employer does not know what the expected annual wages of an employee will be, it is recommended that the employer use Method 1: Percentage of Wages. Use of this alternative method for employees with

annual earnings over the \$18,000 or \$30,000 level is permitted, but it will result in the overwithholding of state income tax.

Note on 21% rate: Although the percentage has been increased from 14% to 21% for purposes of this alternative method, there has not been an income tax rate increase for individuals. The increase in the percentage only applies for withholding purposes, and serves to compensate for the lower federal income tax withholding that will result from the 2001 federal tax rate cuts.

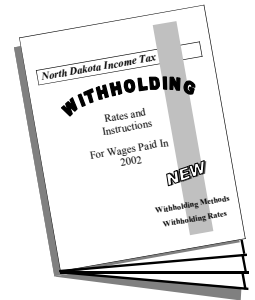
Method 3: Withholding Tables

This method is identical to Method 1, the primary method, except that no calculations are required. Instead of calculating the withholding amount in the manner described for Method 1, an employer simply looks up the tax in a table. This method is generally recommended for employers having a manual payroll system and a small number of employees. Adaptation to computerized payroll systems will be cumbersome.

An employer needs the following information to look up the tax in the appropriate table:

- Payroll period.
- Marital status of employee.
- Wages paid for period.
- Number of withholding allowances claimed on the employee's Form W-4.

The tables for Method 3 are not provided in the new withholding procedures booklet—see sidebar. The tables for this method may be obtained by contacting the Office of State Tax Commissioner—see page 8 for contact information.



**Coming soon!
to employers**

New 2002 withholding procedures booklet

A new withholding procedures booklet has been developed for employers and payroll services. It explains the new withholding methods that apply to wages paid in calendar year 2002.

The new booklet only contains Method 1 and Method 2. The procedures and tables for Method 3 must be obtained separately by contacting the Office of State Tax Commissioner.

The new booklet will be mailed to all registered employers and payroll services around mid-November (2001).

Withholding question?

E-mail our Withholding Section at—

withhold@state.nd.us

Filling in the new Form ND-1 and schedules . . .

The Form ND-1 and its supplemental schedules present a whole new design for 2001. This new design fits our new processing system which uses special scanning and image-processing equipment. This equipment takes a picture of the return, processes the data on it, and stores the image and data electronically. Following these tips will help us do a better job.

- ① If completing the return by hand, print all numbers and letters within the boxes on the form. Enter only one number or letter in each box. Use black or blue ink only.
- ② Print neatly. Use UPPERCASE letters.
- ③ Write the numbers and letters like those shown in the example below.

Enter a minus sign (-) to indicate a negative number.

Enter dollar amounts so that the last digit in the number is in this box

Enter cents in these boxes

- ④ Fill in all applicable circles as shown here:

Correct way → ● Incorrect way → ⊗ or ✓

Before you prepare Form ND-2 for a client . . .

Be sure to check out Form ND-1. The use of Form ND-2 may result in your client paying too much tax.

Over 95 percent of all filers, regardless of their residency, will have a lower tax on Form ND-1 than on Form ND-2. And this applies despite the various deductions and credits allowed only on Form ND-2.

Even if Form 37 was used for the 2000 tax year, Form ND-1 should be considered for 2001.

Forms line-up *continued from front page*

forms for the two systems have been placed in separate booklets starting this year.

While the two systems now share some of the same characteristics, particularly the federal taxable income starting point, significant differences exist between them. The most important difference is in the tax rates under each system. It cannot be emphasized enough that over 95 percent of all individual filers will have the lowest tax under the new system on Form ND-1. This is due to the lower tax rate structure applicable to the Form ND-1 system.

Changes affecting both Form ND-1 and Form ND-2

A new part-year resident filing status was added to both forms for 2001. This status must be used by individuals who were legal residents of North Dakota for only part of the tax year.

Along with this change, the procedures that part-year residents must use to complete the return and calculate the tax have significantly changed. On both Form ND-1 and Form ND-2, a part-year resident will now complete the return and calculate the tax in the same manner as a full-year nonresident. In addition, the calculation of the credit for

income tax paid to another state has been expanded to allow a part-year resident to claim the credit with respect to the resident portion of the tax year.

Also note that while the calculation of the credit for income tax paid to another state is the same for both Form ND-1 and Form ND-2 purposes, the forms will be different. For Form ND-1 purposes, a new supplemental schedule called Schedule ND-1CR must be used. The Schedule 4 will be retained, but will now be used only with Form ND-2.

Schedule NR, which was used by nonresidents and certain part-year residents to report North Dakota source income, is discontinued. This work will now be done on Schedule ND-1NR for Form ND-1 purposes and on Schedule 3 for Form ND-2 purposes.

Form ND-1

A black and white version of the new Form ND-1 is shown on pages 5 and 6. The official version of the form will be printed using both black ink and a "drop out" green ink. The green ink is used for the boxes and a number of other elements on the official version. When scanned

during processing, the green-colored elements on the form "drop out" or disappear. The information in the box at the top of this page explains how to complete the new forms to ensure good scanning.

The following three new supplemental schedules were developed for use with Form ND-1:

- Schedule ND-1NR
- Schedule ND-1CR
- Schedule ND-1FA

A brief description of each schedule's purpose is provided on page 7.

Full-year nonresidents and part-year residents using Form ND-1 will report their North Dakota source income and calculate their tax on the new Schedule ND-1NR. In general, these individuals will calculate a tentative tax on all of their income in the same manner as a full-year resident. The tentative tax must then be multiplied by a ratio equal to their North Dakota adjusted gross income divided by their federal adjusted gross income to determine the final tax. Please note the following when calculating the tax for full-year

(See **More forms line-up** on page 8)



ND-1 Individual income tax return 2001

Please type or print in black or blue ink. Enter one letter or number in each box. Fill in circles completely.

Your social security number

 - -

Spouse's social security number

 - -

Your name (First, MI, Last name)

If joint return, spouse's name (First, MI, Last name)

Mailing address

City

State

Zip code

- A. Filing status used** ☐ 1. Single
on federal return: ☐ 2. Married filing joint return
(Fill in only one) ☐ 3. Married filing separate return: Spouse's name
☐ 4. Head of household
☐ 5. Qualifying widow(er) with dependent child
- B. Residency status:** ☐ 1. Full-year resident
(Fill in only one) ☐ 2. Full-year nonresident
☐ 3. Part-year resident
- C. School district code**
(See page 17) -
- D. Income source code**
(See page 9)

Fill in only if applicable: ☐ Amended
(See page 9) ☐ Extension

Fiscal year filer ONLY: (See page 9)

Enter fiscal year beginning date

 / /

Enter fiscal year ending date

 / /

Were you required to pay
estimated federal income tax
for 2001? (See page 9) ☐ Yes
☐ No

Dept. use only: Composite return ☐ (CF)

E. Federal adjusted gross income from line 33 of your Form 1040, line 19 of Form 1040A,
line 4 of Form 1040EZ, or line I of TeleFile Tax Record ----- (SX)

US Dollars

 , , .

1. Federal taxable income from line 39 of your Form 1040, line 25 of Form 1040A, line 6 of
Form 1040EZ, or line K of TeleFile Tax Record ----- (SS) 1

 , , .

Additions

2. Lump-sum distribution from Federal Form 4972 ----- (NB) 2

**3. Loss from pass-through entity subject to North Dakota's
financial institution tax (Attach statement from entity)** ----- (NB) 3

4. Total additions. Add lines 2 and 3 ----- 4

5. Add lines 1 and 4 ----- 5

Subtractions

6. Interest from U.S. obligations
(Attach supporting statement) ----- (SN) 6

7. Net long-term capital gain exclusion
(From worksheet in instructions) ----- (NC) 7

8. Exempt income of a Native American ----- (S4) 8

9. Benefits received from U.S. Railroad Retirement Board
(Attach copy of Form RRB-1099/RRB-1099-R, or both) ----- (S5) 9

**10. Income from pass-through entity subject to North Dakota's
financial institution tax (Attach statement from entity)** ----- (S6) 10

11. Renaissance zone income exemption
(Attach Schedule RZ) ----- (S7) 11

12. Total subtractions. Add lines 6 through 11 ----- 12

13. North Dakota taxable income. Subtract line 12 from line 5. If less than zero, enter 0 (ND) 13

14. Tax (See page 11 of instructions) ----- (SB) 14



US Dollars

15. Enter your **tax** from line 14 of page 1 15**Credits**16. Credit for income tax paid to another state
(Attach Schedule ND-ICR) (SD) 16

17. Family member care credit (Attach Schedule FC) (S2) 17

18. Renaissance zone credit (Attach Schedule RZ) (S3) 18

19. Agricultural commodity processing facility investment credit
(Attach investment reporting form) (NE) 19

20. Credit for unused federal credit for prior year minimum tax ---- (NF) 20

21. Total credits. Add lines 16 through 20 21

22. **Net tax liability.** Subtract 21 from line 15. **If less than zero, enter 0** (SE) 22**Withholding and/or tax already paid**

23. North Dakota withholding (Attach supporting W-2s and 1099s) 23

24. Estimated tax paid plus overpayment applied from 2000 return (SF) 24

25. Total payments. Add lines 23 and 24 25

Refund26. **Overpayment** - If line 25 is MORE than line 22, subtract line 22 from line 25 and enter result;
otherwise, go to line 31. **If result is less than \$5.00, enter 0** (SG) 2627. Amount of line 26 that you want applied to your 2002
estimated tax (SQ) 27

28. Voluntary contribution to Watchable Wildlife Fund (SP) 28

29. Voluntary contribution to Trees for ND Program Trust Fund ... (SW) 29

30. **Refund.** Line 26 less lines 27, 28, and 29. **If result is less than \$5.00, enter 0** (SR) 30To **direct deposit** your
refund, complete items a, b,
and c. (See page 12.)

a. Routing number:

b. Account number:

c. Type of account:

☐ Checking☐ Savings**Tax Due**31. **Tax due** - If line 25 is less than line 22, subtract line 25 from line 22 and enter result.
If result is less than \$5.00, enter 0 (SZ) 31

32. Voluntary contribution to Watchable Wildlife Fund (SU) 32

33. Voluntary contribution to Trees for ND Program Trust Fund ... (SY) 33

34. **Balance due.** Add lines 31, 32, 33, and, if applicable, line 35. Pay to: **State Tax Commissioner** ... 34

35. Interest on underpaid estimated tax from Form 400-UT (SO) 35

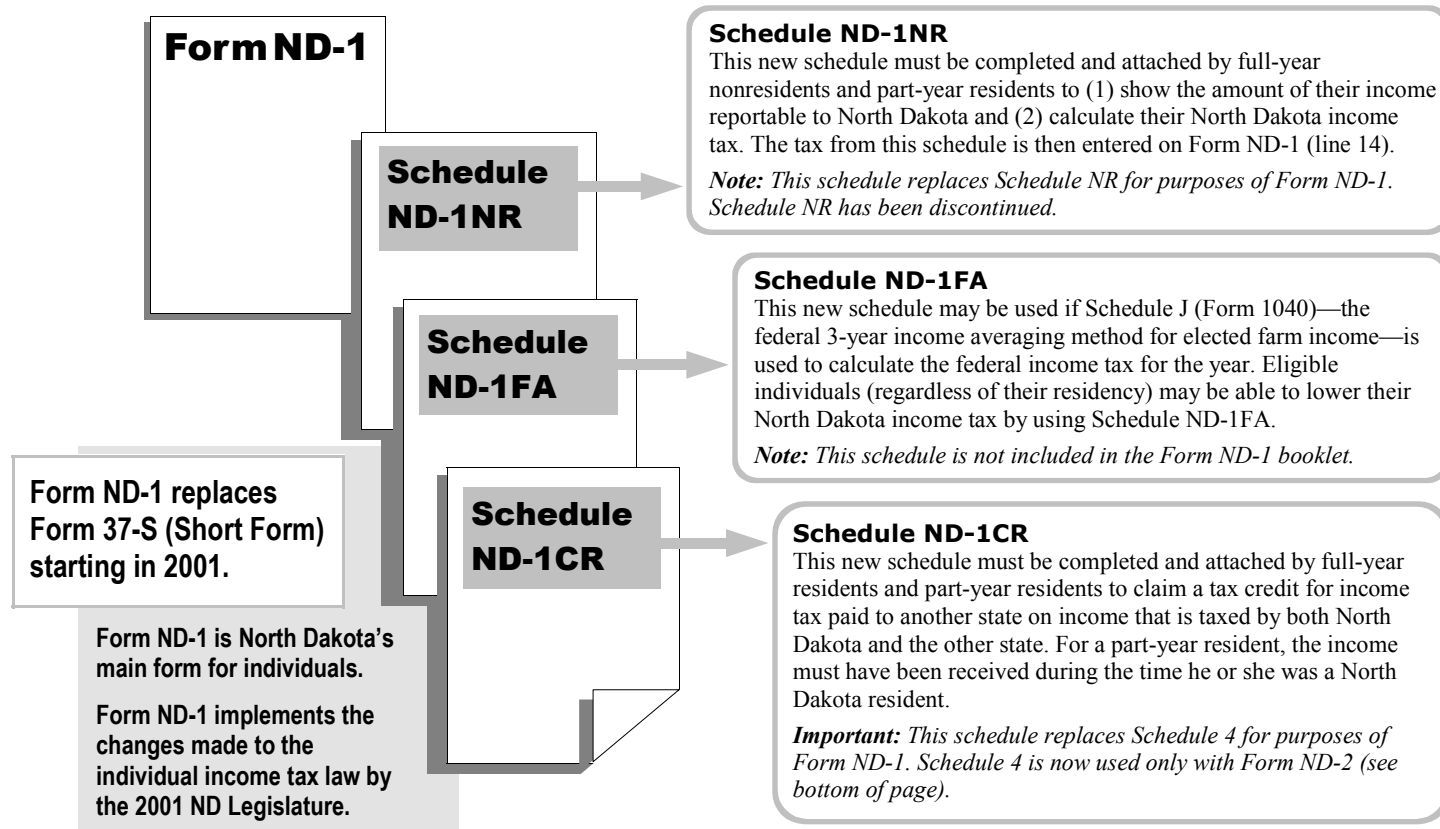
I declare under the penalties of North Dakota Century Code §12.1-11-02, which provides for a Class A misdemeanor for making a false statement in a governmental matter, that this return, including any accompanying schedules and statements, has been examined by me and to the best of my knowledge and belief is a true, correct, and complete return. **Privacy Act** - see inside front cover of booklet.

Your signature	Date	Your daytime phone number
Spouse's signature	Date	
Signature of paid preparer	EIN/SSN/PTIN	Date

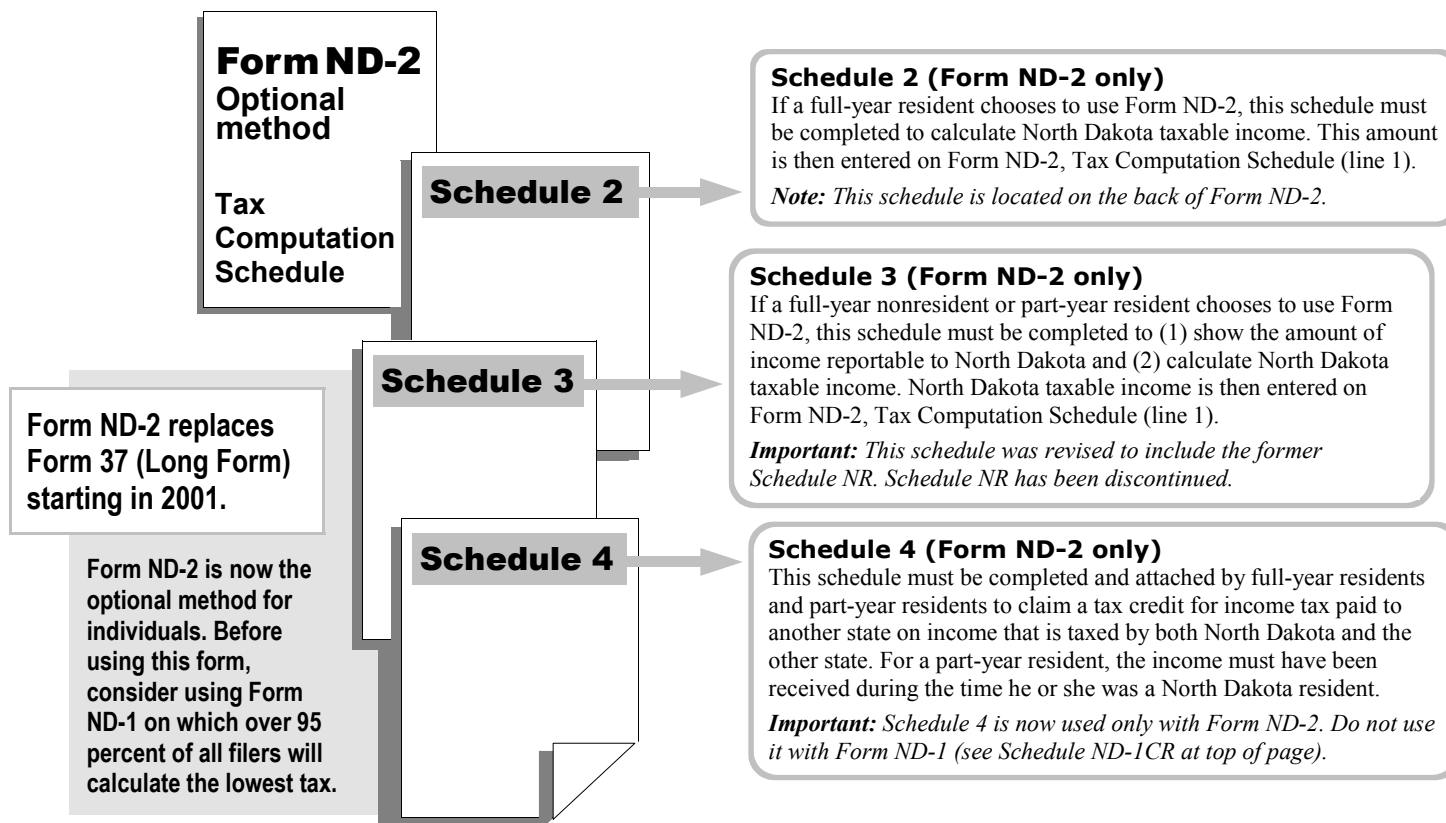
▶ **Attach a copy of your 2001 federal income tax return.**▶ **Mail to: State Tax Commissioner, State Capitol,
600 E Boulevard Ave., Bismarck, ND 58505-0550**OPR ☐**Tax Department use only**☐

Income tax update October 2001

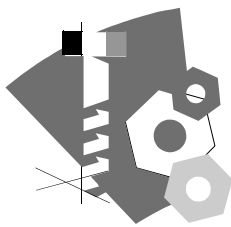
2001 Form ND-1 and supplemental schedules



2001 Form ND-2 (Optional method) and supplemental schedules



More Practical stuff . . .



Return incomplete without required signature

A taxpayer's signature is a required part of a complete return. Income tax returns missing a required taxpayer signature will be returned to the taxpayer. This will not only delay the receipt of a refund, but it may also result in a penalty for late filing if the taxpayer signs and mails a return back with tax due on it after the due date.

Return also incomplete without federal return

Similar to the signature, a copy of the federal income tax return is a required part of a complete return. A return missing the copy of the federal return will also be returned to the taxpayer.

Please check your clients' addresses

A small detail perhaps, but an important one. Be sure your

clients' addresses used on returns are correct and meet the U.S. Postal Service's addressing standards. We use the addresses off of the returns to update our files and mail out refunds and other correspondence to taxpayers. An incorrect or nonstandard address will result in the return of refund checks and important correspondence. One item of special note here is the use of "one-half" or "1/2" in an address—the U.S. Postal Service wants the numeric ("1/2") version to be used.

Estates and trusts also have new income tax system

The provisions of House Bill 1399, the *Income Tax Revision Act of 2001*, which created the new income tax system on Form ND-1 for individuals, also apply to estates and trusts. Schedule 1 of Form 38 has been revised to reflect the new income tax

system. In addition, Schedule 1 and Schedule 2 will no longer be called the "short method" and "long method," respectively. Instead, Schedule 1 is now the main method for estates and trusts, and Schedule 2 is the optional method.

2002 estimated tax forms reflect indexed rates

The worksheets for calculating North Dakota estimated income tax on Form 400-ES (for individuals) and Form 401-ES (for estates and trusts) have been revised to reflect the new income tax system. They also show the 2002 indexed tax brackets under the new system—the *Income Tax Revision Act of 2001* requires the indexing of the new tax rate brackets based on a method similar to the one utilized by the U.S. Treasury Department to index the federal income tax rates.

More forms line-up *continued from page 4*

Individual income tax question?

E-mail our Individual Income Tax Section at—
individualtax@state.nd.us

nonresidents and part-year residents:

- When calculating the tentative tax, the additions and subtractions on lines 2, 6, 7, 8, and 9 of Form ND-1 must be made even if the income is not sourced in North Dakota.
- For purposes of the ratio, the federal adjusted gross income must be reduced by any amount shown on line 6 of Form ND-1.

The Form ND-1 booklet will include Schedule ND-1NR and Schedule ND-1CR. Schedule ND-1FA must be obtained separately, if needed.

Form ND-2

Form ND-2 (Optional Method) and its supplemental schedules remain largely unchanged in both content and structure. Schedule 3 for full-year nonresidents and part-year residents was revised to incorporate the elements of

Schedule NR which has been discontinued for 2001. A brief description of each schedule's purpose is provided on page 7.

The Form ND-2 booklet will include Form ND-2, Schedule 2, and Schedule 3. Schedule 4 must be obtained separately, if needed.

Where to reach us. . .

Phone numbers

General toll free (<i>within North Dakota</i>)	1-800-638-2901
Individual income tax	701-328-3450
Income tax withholding	701-328-3125
Withholding toll free	1-877-638-2966
Corporation income tax	701-328-2046
Sales and special taxes	701-328-3470
<i>Includes sales, use, motor fuels, estate, city lodging, highway contract privilege, and music composition performing rights taxes.</i>	
Oil and gas taxes	701-328-2014
Property tax	701-328-3127
Commissioner's office (receptionist)	701-328-2770
Speech/hearing impaired	Call Relay ND at 1-800-366-6888 (ask for 1-800-638-2901)

Address

Office of State Tax Commissioner
State Capitol
600 East Boulevard Avenue
Bismarck, ND 58505-0599

Web site

www.ndtaxdepartment.com

E-mail

taxinfo@state.nd.us

Comments?

You may direct your comments on this publication to Joseph Becker.
Phone: 701-328-3451. E-mail:
jjbecker@state.nd.us.